

CIAOER EIWA 74-04-24 24 April 74
Saudis Shifting Foreign Holdings

Approved For Release 2002/04/18 : CIA-RDP85-00015R000100010001-1

TS/SI/NFD 1 of 1
SC 05900/74

Top Secret

No Foreign Dissem



Annex to

Economic Intelligence Weekly

Saudis Shifting Foreign Holdings

Top Secret

Handle via Comint Channels

SC No. 05900/74
24 April 1974

Warning Notice
Sensitive Intelligence Sources and Methods Involved

Additional Warning
NATIONAL SECURITY INFORMATION
Unauthorized Disclosure Subject to Criminal Sanctions

Classified by 515319
Exempt from general declassification schedule
of E.O. 11652, exemption category:
§ 55(1), (2), and (3)
Automatically declassified on:
Date impossible to Determine

TOP SECRET

Approved For Release 2000/04/18 : CIA-RDP85T00875R001500170007-7

HANDLE VIA COMINT CHANNELS**WARNING**

This document contains classified information affecting the national security of the United States within the meaning of the espionage laws, US Code, Title 18, Sections 793, 794, and 798. The law prohibits its transmission or the revelation of its contents in any manner to an unauthorized person, as well as its use in any manner prejudicial to the safety or interest of the United States or for the benefit of any foreign government to the detriment of the United States.

**THIS DOCUMENT MUST BE KEPT IN COMMUNICATIONS
INTELLIGENCE CHANNELS AT ALL TIMES**

It is to be seen only by US personnel especially indoctrinated and authorized to receive COMMUNICATIONS INTELLIGENCE information; its security must be maintained in accordance with COMMUNICATIONS INTELLIGENCE REGULATIONS.

No action is to be taken on any COMMUNICATIONS INTELLIGENCE which may be contained herein, regardless of the advantages to be gained, unless such action is first approved by the Director of Central Intelligence.

Approved For Release 2000/04/18 : CIA-RDP85T00875R001500170007-7

TOP SECRET

TOP SECRET UMBRA

No Foreign Dissem

SC No. 05900/74a

25 April 1974

Memorandum to Holders of Annex to Economic Intelligence Weekly,
Saudis Shifting Foreign Holdings, SC No. 05900/74, 24 April 1974

Because of a printing error, a portion of the paragraph following the table on page 1 was omitted. The paragraph should read as follows:

In response to the current massive buildup of funds -- holdings are rising about \$1.4 billion monthly -- King Faysal apparently has decided to permit the Saudi Arabian Monetary Agency (SAMA) to substantially diversify its investments. Acting through US and foreign banks, SAMA plans to spend up to \$1 billion on foreign *equities*. *At least \$100 million has been earmarked for purchases in the US stock market.* SAMA apparently plans to avoid speculative stocks, concentrating on blue-chip companies with superior growth potential.

TOP SECRET UMBRA

No Foreign Dissem

SAUDIS SHIFTING FOREIGN HOLDINGS

A dramatic shift in Saudi Arabia's investment policy is under way. Sources indicate that Riyadh has decided to invest heavily in foreign equities -- particularly US stocks -- and in direct loans to European public agencies. Loans to international organizations will also sharply increase.

Saudi Arabia's investment policy has traditionally been the most conservative in the Middle East. Riyadh essentially viewed its foreign assets as money for a rainy day. At the end of 1973, nearly 80% of Saudi holdings consisted of liquid assets; less than 15% was in equities and real estate. Credits were extended to few countries other than Egypt, Syria, and Jordan.

Composition of Saudi Arabia's Official Foreign Assets 31 December 1973

	Percent
Gold and reserve position in the IMF	5
Other foreign reserves	80
Bank deposits	65
Highly liquid (current and call accounts)	30
Relatively liquid (time accounts and certificates of deposit)	35
Treasury stock and bonds	10
Selected notes and loans	5
Other foreign assets, including equities and real estate	15
	Million US \$
Total foreign assets	4,675

In response to the current massive buildup of funds -- holdings are rising about \$1.4 billion monthly -- King Faysal apparently has decided to permit the Saudi Arabian Monetary Agency (SAMA) to substantially diversify its investments. Acting through US and foreign banks, SAMA plans to spend up to \$1 billion on foreign purchases in the US stock market. SAMA apparently plans to avoid speculative stocks, concentrating on blue-chip companies with superior growth potential.

During the first quarter of this year, the Saudis invested about \$1.2 billion in government-guaranteed loans to French public agencies and in

British treasury bills. These investments generally were made through banks to shroud Saudi participation.

King Faysal also seems willing to channel more Saudi investments to international organizations. During the recent visit of IMF Managing Director Witteveen, the Saudis agreed to participate in proposed new Fund arrangements to finance oil-induced payments deficits. Further lending to the World Bank and increased contributions to specialized UN agencies active in the less developed world are also contemplated.

The shift in Saudi investments toward longer term holdings will facilitate the recycling of oil producers' funds to oil-importing countries because these countries are interested in the long-term commitment of the funds.

At the same time, the concentration of the investments in the United Kingdom, the United States, and a few other developed countries poses problems. Increasing Arab ownership of domestic financial instruments -- particularly equities -- will heighten concern about foreign control of important industries. Even if oil prices decline substantially from current levels, the Arabs will have vast potential to buy up major companies worldwide. In addition, countries will experience some deterioration in their international trade competitiveness if the inflow of Arab funds exceeds their borrowing needs. The United Kingdom and the United States, in particular, could see their currencies appreciating as a consequence of capital inflows, even though their trade balances were deteriorating.